

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-11 ISO-00 NEA-14 IO-14 L-03 H-03 SP-03

AID-20 EB-11 NSC-07 RSC-01 CIEP-02 SS-20 STR-08

OMB-01 CEA-02 CIAE-00 COME-00 FRB-02 INR-10 NSAE-00

XMB-07 OPIC-12 LAB-06 SIL-01 PA-04 USIA-15 PRS-01

DRC-01 EUR-25 FEA-02 INT-08 FPC-01 /216 W

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P 210940Z MAY 74

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 3639

INFO AMEMBASSY BANGKOK PRIORITY

AMEMBASSY VIENTIANE PRIORITY

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USADB

FOR NAC AGENCIES & DEPT PASS KEN RABIN

BANGKOK FOR RED

E.O. 11652: DECLASS 5-21-75

TAGS: EAID, EFIN, LA

SUBJ: NAM NGUM II - PROPOSED ADB ROLE IN IMPLEMENTATION
OF HYDROPOWER PROJECT IN LAOS

REF: MANILA 4573

SUMMARY: ADB MANAGEMENT PROPOSES BANK SERVE AS COORDINATOR
FOR EXECUTION OF SUBJECT PROJECT BEING FINANCED BY GERMAN
AND CANADIAN BILATERAL LOANS TO EDL AND RLG RESPECTIVELY
AND BY MULTILATERAL CONTRIBUTIONS TO SECOND NAM NGUM
DEVELOPMENT FUND (GRANTS AND LOANS FROM VARIOUS DONORS).
ROLE INCLUDES ACTING AS ADMINISTRATOR OF FUND INCLUDING
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DRAWDOWN OF DIFFERENT CONTRIBUTIONS, INVESTMENT OF ASSETS

PENDING INVESTMENT, AND REVIEW OF PROCUREMENT ACTIVITIES AND OTHER IMPLEMENTING ACTIONS. USADB RECOMMENDS FAVORABLE NAC ACTION. END SUMMARY.

1. ADB DOC R49-74 WITH ATTACHMENTS DESCRIBING PROPOSAL POUCHED ADDRESSEES MAY 22. BOARD CONSIDERATION SCHEDULED JUNE 4. IF APPROVED BY BOARD, CEREMONY TO SIGN INT'L FUND AGREEMENT INCLUDING ALL DONORS, BANK, LAOS AND THAILAND, SCHEDULED JUNE 6.

2. ADB MANAGEMENT PROPOSING BANK SERVE AS COORDINATOR SUBJECT PROJECT. TASK WILL INCLUDE ADMINISTRATION OF DEVELOPMENT FUND AS FOLLOW-ON TO MOBILIZATION EXERCISE AND PREPARATION DRAFT LEGAL DOCUMENTS WHICH CULMINATED APRIL 17-19, 1974 MEETING OF CONTRIBUTORS PER REFTEL.

3. AT APRIL MEETING, ELECTRICITE DU LAOS (EDL), IN ACCORD BANK'S GUIDELINES ON USES OF CONSULTANTS, ADVISED SELECTION OF MOTO-COLOMBUS ENGINEERING SERVICES, INC. (SWITZERLAND) AS CONTRACTOR FOR ENGINEERING SERVICES, AND DONORS APPROVED INTERIM FINANCING TO PERMIT CONTRACTOR TO PROCEED. NOTICE TO PROCEED WAS ISSUED AND CONSULTANT BEGAN WORK APRIL 25, 1974. PROJECT SCHEDULED SUCH THAT VILLAGE ELECTRIFICATION AND SPILLWAY GATES TO BE COMPLETED BY 1975; TWO NEW 40 MW TURBINE GENERATOR UNITS TO BE COMMISSIONED BY END OF 1977.

4. TOTAL PROJECT COSTS NOW ESTIMATED TO BE US\$24.7 MILLION EQUIVALENT, FUNDING FOR WHICH IS PROVIDED IN TWO CATEGORIES: (A) BILATERAL LOANS, COMPRISING ONE LOAN OF DM 11.5 MILLION FROM KFW TO EDL AND ONE LOAN OF CAN \$2.5 MILLION FROM GOVT OF CANADA TO LAOS AND (B) MULTILATERAL CONTRIBUTIONS TO THE SECOND NAM NGUM DEVELOPMENT FUND COMPRISED OF GRANTS FROM GOVTS OF AUSTRALIA (US\$500,000 EQUIV); INDIA (RPS 1,000,000); NETHERLANDS (US\$144,545 EQUIV); NEW ZEALAND (NZ\$500,000); UNITED KINGDOM (L32,000) AND LOANS FROM OECF OF JAPAN (Y3,180,000,000); UNITED KINGDOM (L48,000) AND THE UNITED STATES (\$5,00,000). TERMS OF CONTRIBUTIONS VARY, INTEREST RATES RANGE FROM ZERO TO 3 PERCENT; GRACE PERIODS RANGE FROM 7 TO 10 LIMITED OFFICIAL USE

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YEARS; MATURITIES RANGE FROM 25 TO 50 YEARS. WEIGHTED AVERAGE GRANT ELEMENT OF ALL CONTRIBUTIONS APPROXIMATELY 75.5 PERCENT.

5. COMPLEX AND DIFFERENTIAL TYING RESTRICTIONS ATTACHED TO MOST OF THE CONTRIBUTIONS, HOWEVER OECF LOAN AND AUSTRALIAN AND DUTCH GRANTS MAY FINANCE ANY PROJECT EXPENDITURE EITHER FOREX OR LOCAL CURRENCY. NEW ZEALAND GRANT

AND U.S. LOAN ALSO AVAILABLE TO FINANCE A REASONABLE PART OF LOCAL CURRENCY COSTS, BUT BALANCE OTHERWISE TIED TO FOREX COSTS OF GOODS AND SERVICES FROM NEW ZEALAND AND U.S. RESPECTIVELY. INDIAN CONTRIBUTION TIED TO FINANCING FOREX COSTS INDIAN GOODS AND SERVICES. UK CONTRIBUTION TIED TO FINANCING COST OF UK GOODS REQUIRED FOR VILLAGE ELECTRIFICATION; KFW LOAN AVAILABLE TO FINANCE COST OF TRANSMISSION LINE, EXTENSION OF VIENTIANE SUBSTATION AND CONSTRUCTION OF NEW THANALENG SUBSTATION, INCLUDING PART OF CONSULTANT SERVICES RELATING THERETO. CANADIAN LOAN TIED TO FINANCING COSTS OF CANADIAN GOODS AND SERVICES.

6. BORROWER TO BE ROYAL LAOTIAN GOVT *(RLG); ELECTRICITE DU LAOS (EDL) EXECUTING AGENCY, AND BANK TO SERVE AS ADMINISTRATOR OF FUND WHO WILL ARRANGE FOR DRAWDOWN SEMI-ANNUALLY OF THE DIFFERENT CONTRIBUTIONS TO EFFECT DISBURSEMENTS; AND WOULD INVEST ASSETS OF FUND PENDING DISBURSEMENTS. LOCAL COSTS TO BE MET BY KIP PURCHASES MADE AT MOST ADVANTAGEOUS LEGAL RATE.

7. PROCUREMENT OF GOODS AND SERVICES WILL BE UNDERTAKEN BY EDL IN ACCORD WITH ARRANGEMENTS AND PROCEDURES SATISFACTORY TO BANK. GIVEN TYING CONDITIONS, EDL, WITH CONSULTANT'S ADVICE, WILL SUBMIT FOR BANK PRIOR APPROVAL PROCUREMENT PROPOSALS TO BE FINANCED FROM FUND. SUCH PROPOSALS TO INCLUDE DETAILED PROPOSALS AS TO BID PACKAGES, NUMBER AND SCOPE OF INDIVIDUAL CONTRACTS AND ELIGIBLE SOURCES FOR PROCUREMENT OF EACH CONTRACT. TO EXTENT PRACTICABLE, THERE WILL BE INTERNATIONAL COMPETITIVE BIDDING IN ACCORD BANK'S "GUIDELINES FOR PROCUREMENT". CONTRACTS FINANCED FROM FUND ONLY TO BE AWARDED TO SUPPLIERS OR CONTRACTORS FROM CONTRIBUTOR COUNTRIES AND FROM COUNTRIES LIMITED OFFICIAL USE

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ELIGIBLE FOR PROCUREMENT FROM BANK'S SPECIAL FUNDS. SPECIAL PROCUREMENT ARRANGEMENTS WILL APPLY IN RESPECT OF SERVICES OF HYDROPOWER ENGINEER TO ASSIST EDL; GOODS REQUIRED FOR VILLAGE ELECTRIFICATION (LIMITED TO UK SUPPLIERS); AND GOODS AND SERVICES FINANCED BY KFW LOAN.

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8. AS ADMINISTRATOR OF PROJECT, BANK WILL SUPERVISE EXECUTION INCLUDING PROCUREMENT AND COORDINATING IMPLEMENTATION OF PARTS OF PROJECT FINANCED FROM FUND AND FROM PROCEEDS OF BILATERAL LOANS. BANK WILL FURNISH SIX MONTHLY REPORTS TO CONTRIBUTORS AND RLG ON RECEIPTS AND DISBURSEMENTS OF FUND AND PROGRESS IN IMPLEMENTATION. FUNCTION OF BANK AS ADMINISTRATOR WILL CEASE UPON COMPLETION OF CONSTRUCTION OR DISBURSEMENT OF AMOUNTS NEEDED TO PAY FOR GOODS AND SERVICES FURNISHED, WHICHEVER IS LATER. FYI: IN VIEW PREVIOUS APPROVAL BY BANK TO EDL TO ENGAGE CONSULTANT WHO HAS ALREADY BEGUN WORK, A JULY (WHEN FUND AGREEMENT BECOMES EFFECTIVE) DRAWDOWN WOULD BE NECESSARY TO REIMBURSE CONSULTANT FOR EXPENSES INCURRED. END FYI. PROCEEDS FROM CONTRIBUTORS TO RLG WILL BE RELENT TO EDL ON SAME TERMS AND CONDITIONS AS APPLY TO RESPECTIVE LAONS.

9. GIVEN ECONOMIC SITUATION, LIMITED FOREX EARNING CAPACITY, AND SMALL SIZE OF LAOS, BANK INTENDS WAIVE ALL CHARGES FOR EXPENSES INCURRED IN CONNECTION WITH PROJECT, LIMITED OFFICIAL USE

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WHICH ON BASIS EXPENDITURES OVERALL LOAN AND TECHNICAL ASSISTANCE OPERATIONS AMOUNTS TO ABOUT 3 PERCENT TOTAL COMMITMENTS PER YEAR, OR ESTIMATED COST TO BANK DURING CONSTRUCTION AND INITIAL OPERATION OF PROJECT OF \$750,000.

10. SCOPE OF PROJECT ESSENTIALLY SAME AS DESCRIBED IN INITIAL PROJECT REVIEW REPORT DATED SEPT 1973 WITH EXCEPTION INCLUSION ADDITIONAL SUBSTATION THANALENG, COSTING \$800,000, TO BE FINANCED WITHIN SCOPE OF PROJECT PORTION FINANCED BY KFW. THIS SUBSTATION ENABLES POWER TO BE PROVIDED INDUSTRIAL AREA OF VIENTIANE AND NZR IRRIGATION AND ELECTRIFICATION ADJOINING VILLAGES.

11. COST ESTIMATES ESSENTIALLY SAME AS ANTICIPATED INITIAL REVIEW WITH EXCEPTION ADDITION THANALENG SUBSTATION. BREAKDOWN AS FOLLOWS:

	AMOUNT (\$'000)		
CATEGORY	LOCAL	FOREX	TOTAL
CURRENCY			
I SPILLWAY GATES	40	800	840
II GENERATING EQUIP	430	8,200	8,630
III GATES AND PENSTOCKS	150	1,250	1,400
IV CIVIL WORKS	940	3,750	4,690
V TRANSMISSION LINES			
& SUBSTATIONS	590	2,770	3,360
VI VILLAGE ELECTRIF.	60	200	260
VII CONSULTING SERV	200	1,850	2,050
VIII ADVISORY SERV	20	190	210
IX CONTINGENCY	460	2,800	3,260
TOTAL	2,890	21,810	24,700

12. ABOVE ESTIMATE INCLUDES OVERALL CONTINGENCY ALLOWANCE 15 PERCENT, APPORTIONED 10 PERCENT TO COVER POSSIBLE COST INCREASES AND 5 PERCENT POSSIBLE EXCHANGE FLUCTUATIONS. CURRENT CONTRIBUTIONS PLEDGED TOTAL \$25.1 MILLION. GIVEN WORLDWIDE INFLATION, COST ESCALATIONS, CURRENCY CHANGES, POSSIBILITY OF COST OVERRUNS NOT RULED OUT BY BANK BUT CLEARER FIXES THIS EVENTUALLY NOT POSSIBLE UNTIL MID-1975 WHEN BIDDING ON MOST CONTRACTS (EXCLUSIVE OF TRANSMISSION FACILITIES) WILL HAVE CLOSED.

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13. EGAT/EDL ENERGY SALES AGREEMENT HAS FIXED PRICE VALID UNTIL CONTRACT EXPIRATION 1981. EGAT HAS AGREED GIVE CONSIDERATION IN CONTRACT RENEWAL NEGOTIATIONS FOR PRICE ADJUSTMENT TO REFLECT ACTUAL PETROLEUM FUEL PRICES PAID BY EGAT. EXPECTATION THEREFORE THAT PRICE EGAT WILL PAY EDL AFTER 1981 WILL SUBSTANTIALLY EXCEED CURRENT PRICE 4.5 MILLS/KWH (KIP 3.78) THEREFORE EDL REVENUE FROM POWER EXPORTS AFTER 1981 WILL INCREASE.

14. GOVT OF THAILAND HAS APPLIED TO BANK FOR LOAN TO EGAT TO FINANCE PACKAGE OF TRANSMISSION FACILITIES SUFFI-

CIENT ENABLE EGAT ABSORB INTO ITS NETWORK ADDITIONAL POWER
HC BE PROVIDED BY NAM NGUM II. BANK MISSION VISITED
THAILAND APRIL 1974 TO APPRAISE EGAT PROJECT AND WILL
SUBMIT PROPOSAL FOR BOARD CONSIDERATION. BANK MISSION
CONFIRMED EGAT INTENTION HAVE TRANSMISSION LINES
OPERATIONAL MID-1977.

15. LEGAL DOCUMENTS ESTABLISHING FRAMEWORK FOR PROJECT
INCLUDE:

(A) SECOND NAM NGUM DEVELOPMENT FUND AGREEMENT,
INITIALLED MANILA APRIL 19 BY DONORS PER REFTEL
(B) PROJECT AGREEMENT BETWEEN LAOS, EDL AND BANK
(C) FINANCING AGREEMENT BETWEEN LAOS AND EDL
IN ADDITION THERE WILL BE INDIVIDUAL LOAN AGREEMENTS
BETWEEN CANADA AND LAOS, KFW AND EDL, OECF AND LAOS, UK
AND LAOS AND U.S. AND LAOS.

16. PROJECT CONSIDERED FINANCIALLY AND ECONOMICALLY
SOUND AND TECHNICALLY FEASIBLE. ADMINISTRATIVE ARRANGE-
MENTS, THOUGH COMPLEX, ARE PRACTICABLE AND SHOULD PERMIT
PROJECT IMPLEMENTATION ON SCHEDULE. FINANCIAL RATE OF
RETURN ESTIMATED AT 14.9 PERCENT. USADB SUPPORTS PROPOSAL
AND RECOMMENDS FAVORABLE NAC ACTION. REQUEST VIENTIANE
COMMENTS FOR NAC AGENCIES, INFO USADB MANILA, PURUSANT
TO STATE 119795 DTD 3 JULY 1972.

17. FOR RABIN PASS HERB MORRIS - DARYL WILLIAMS OF
GENERAL COUNSEL'S OFFICE OUT OF COUNTRY ON SEPARATE
BANK MISSION. UPON HIS RETURN WEEK OF MAY 27 WILL
ADVISE HIS FINAL COMMENTS ON REMAINING BILATERAL U.S.
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SULLIVAN

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Message Attributes

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